

## Message Text

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TAGS: ECON, OECD, SW

SUBJECT: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE: REVIEW OF  
SWEDEN, MARCH 8, 1976

REF: OECD PARIS 5961

1. SWEDISH GOVERNMENT (GOS) IS PLEASED THAT OECD SECRETARIAT APPEARS SATISFIED THIS YEAR WITH COUNTRY'S ECONOMIC POLICIES AND PERFORMANCE, ACCORDING TO FINANCE MINISTRY OFFICIAL. AFTER PRELIMINARY REVIEW OF SECRETARIAT REPORT, HE SAW NO MAJOR AREAS FOR DISAGREEMENT, ALTHOUGH GOS, COMMITTED TO FULL EMPLOYMENT, FOLLOWS SOMEWHAT MORE ACTIVE POLICY THAN OECD WOULD LIKE.

2. EMBASSY SUGGESTS FOLLOWING COMMENTS/QUESTIONS COULD BE RAISED AT EDRC REVIEW:

A. WHAT EFFECTS WILL INVENTORY SUBSIDY SCHEME HAVE ON EMPLOYMENT AND OUTPUT IN MEDIUM TERM? INVENTORY BUILD-UP SUPPORTED EMPLOYMENT IN SHORT TERM, COMPENSATING FOR WEAKNESS OF FOREIGN DEMAND ON WHICH SWEDISH ECONOMY GREATLY DEPENDS.

AS WORLD ECONOMY IMPROVES WILL EXISTENCE OF HIGH STOCK LEVELS

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DELAY GROWTH OF SWEDISH PRODUCTION AND UNSUBSIDIZED EMPLOYMENT?

IF RECESSION IS PROTRACTED AND DEMAND FOR SWEDISH EXPORTS REMAINS SLUGGISH, FIRMS WILL PROBABLY DISPLAY GROWING RELUCTANCE TO BUILD UP INVENTORIES.

B. INVENTORIES CAN BE CONSIDERED EQUIVALENT OF FOREIGN EXCHANGE RESERVES. SWEDISH INVENTORIES INCREASED BY SKR 10.5 BILLION (US \$2.4 BILLION) IN 1975. WHEN DEMAND PICKS UP, DRAWDOWN OF STOCKS, EITHER FOR EXPORT OR FOR USE AS IMPORT SUBSTITUTES WILL IMPROVE SWEDISH PAYMENTS POSITION. IS IT POSSIBLE THAT CURRENT ACCOUNT DEFICIT COULD RAPIDLY DISAPPEAR?

C. IS EXTENSIVE INVENTORY PRODUCTION, COMBINED WITH DECLINING PROFIT MARGINS, EATING INTO LIQUIDITY OF FIRMS AND CUTTING INTO THEIR ABILITY TO INVEST IN PLANT AND EQUIPMENT?

D. THROUGH MONETARY POLICY GOS ENCOURAGED FOREIGN BORROWING IN 1975 AS MEANS OF FINANCING FOREIGN DEFICIT AND MAINTAINING INDUSTRIAL LIQUIDITY. GOVERNMENT SUBSEQUENTLY ACTED TO SLOW RATE OF FOREIGN BORROWING. WAS GOS SURPRISED AT RAPIDITY AND MAGNITUDE OF FOREIGN DEBT INCURRED BY ENTERPRISES? WHAT IS NET DEBT POSITION OF CENTRAL GOVERNMENT, LOCAL AUTHORITIES, PRIVATE SECTOR?

E. IS IT POSSIBLE THAT INDUSTRIAL INVESTMENT IN NEXT 3-4 YEARS MAY NOT BE SO RAPID AS GOVERNMENT HOPES, BECAUSE OF RISING DEBT-EQUITY RATIO AMONG FIRMS?

F. GOS RECENTLY ANNOUNCED EXPANSION OF PRICE FREEZE TO INCLUDE CANNED MEAT, FRUITS, AND VEGETABLE; FROZEN GOODS; JAMS; MARMALADE; FRUIT SYRUPS; MUSTARD; AND SOME BABY FOODS (IN ADDITION TO FRESH MEAT AND DAIRY PRODUCTS ALREADY CONTROLLED.) IN ANNOUNCING THIS MEASURE, GOS SPOKESMAN NOTED PRICE INCREASES ON SOME GOODS HAD APPEARED TO EXCEED COST INCREASES. WHAT PLANS, IF ANY, DOES GOVERNMENT HAVE FOR EXPANDED USE OF PRICE CONTROLS OR OTHER PRICE-POLICY MEASURES TO COMBAT INFLATION?

G. IS THERE A TREND IN SWEDEN TOWARD GREATER GOVERNMENT INVOLVEMENT IN PRIVATE SECTOR FOR WHATEVER REASON? EXAMPLES: GOS IS PLANNING REORGANIZATION OF OVER-EXPANDED SWEDISH SHIP-CONSTRUCTION INDUSTRY, WHOLLY OWNS ONE OF SWEDEN'S THREE LARGE LIMITED OFFICIAL USE

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SHIPYARDS AND WILL BECOME MAJORITY OWNER OF A SECOND; DECIDES WHETHER OR NOT FORESTRY INDUSTRY MAY EXPAND OR REGROUP AS WAY OF CONTROLLING DEPLETION OF FORESTS; BUYS SHARES IN PRIVATE COMPANIES THROUGH NATIONAL PENSION FUND MONEY; WILL BE LARGEST CRUDE STEEL MANUFACTURER IN COUNTRY IF PLANNED EXPANSION OF NORBOTTEN STEELWORKS IS CARRIED THROUGH.

3. ECONOMIST IN GOVERNMENT'S NATIONAL ECONOMIC RESEARCH

INSTITUTE THOUGH SECRETARIAT AND GOS ESSENTIALLY AGREED ON PROBABLE DEVELOPMENT OF SWEDISH TERMS OF TRADE THIS YEAR. GOS FORECASTS 7 PERCENT INCREASE IN EXPORT PRICES, 6 PERCENT INCREASE IN IMPORT PRICES, FOR ONLY SLIGHT IMPROVEMENT. (PARA 6, REFTEL)

4. ECONOMIC/COMMERCIAL OFFICER MARY E. MCDONNELL PLEASED TO PARTICIPATE IN OECD REVIEW. SHE WOULD APPRECIATE MISSION MAKING HOTEL RESERVATION FOR NIGHTS MARCH 6-8 AND PROVIDING HER ON SATURDAY AT MISSION GUARD DESK WITH COPY OF SECRETARIAT'S SURVEY OF SWEDEN.  
JOHNSON

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